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SUBJECT: Business Leaders: We're Only at the Beginning of the Slowdown

REF: A) Canberra 219, B) Canberra 214

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Summary

1. (SBU) During a series of meetings in Melbourne on March 11, business and political leaders told Charge that the Australian economy is only experiencing the early effects of the global slowdown. Rio Tinto's Managing Director predicts a rough ride for commodities until late 2010 and ANZ's deputy CEO sees a shortage of longer term financing. The head of the Business Council of Australia believes that Australia is entering uncharted economic waters and Victoria's Premier is worried about rising unemployment. Even these senior business leaders appeared somewhat shaken by the scope of the global slowdown and were unable to predict what lies around the next bend for the Australian economy. End Summary.

Uncharted Territory

2. (SBU) According to ANZ Bank's Deputy CEO Robert Edgar, Australia is only at the beginning of the coming economic slowdown. Edgar believes that a "serious correction" is underway in the global economy and predicts that unemployment will continue to rise significantly in Australia. Edgar was "shocked" that economies around the world uniformly plummeted and said the last time this happened was in response to the 1973 oil price shocks. The Business Council of Australia's (BCA) Chief Executive Katie Lahey told Charge that "the market will not necessarily go down and up in a predictable way; we're in uncharted territory until the U.S. economy gets fixed." (Note: The Business Council of Australia (BCA) comprises the CEOs of 100 of Australia's largest companies, making it the voice of big business in Australia. End note.)

3. (SBU) According to Rio Tinto's Managing Director, Stephen Creese, commodities are in for a rough ride until late 2010. Rio expects small improvements in market conditions in the latter part of 2009, followed by a gradual improvement through 2010. The mining giant, however, is bracing for significant downside risks such as further financial shocks, low consumer confidence, rising unemployment and the potential for growth in protectionism. BCA's Katie Lahey echoed these concerns and said that a recovery in the commodities market will be led by China. Resource companies are accustomed to "battening down the hatches" and shedding staff during troughs in the business cycle, she said, but this cycle is more severe.

4. (SBU) Victoria's Premier, John Brumby told Charge that job advertisements and other forward indicators in his state augur a very tough 2009. Of the approximately 16,100 full time equivalent jobs reportedly lost in Australia since November 2008, 8,300 have fallen off in Victoria. The state's unemployment figure has sharply

risen from 4.8 to 5.6 percent, and is now second only to New South Wales and South Australia's rates of 5.8 percent. Brumby acknowledged that Australia's dependence on export-led growth will bite deep into the country's GDP figures but was confident that Victoria would fare better than other states during the downturn due to its diversified economy. The Premier noted, however, that Victoria's dependence on providing tertiary education to foreign students will likely hurt the state's economy in late 2009 due to financial troubles in countries of origin such as China, Singapore, Malaysia and Thailand. At lunch, Monash University Vice Chancellor Richard Larkins told Charge that he had not yet seen a decline in the number of foreign students, and that; in fact, enrollments had increased, as a result of the depreciation of the Australian dollar. (Note: Many Victorians see education as the state's largest foreign "export." End note.)

#### Credit Still Tight

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15. (SBU) ANZ's Robert Edgar said that tightening international banking regulations have required banks such as his to borrow more capital "just to stand still." He said that ANZ still has sufficient funds, but most is 30-day or shorter paper. Despite Moody's March 2 warning that ANZ's AAL rating was no longer secure, Edgar said there are few underlying weaknesses in ANZ's balance sheet, and exposure to "toxic assets" is minimal. Edgar noted that ANZ's loss rate on mortgages was only 10 basis points. He explained this by noting that the Australian banks did not delve in high risk home loans; "I never understood the rationale of loaning without a down payment," he said.

16. (SBU) Rio Tinto's Stephen Creese, however, expressed some frustration with the banks, noting that they are "still not lending to each other." Creese added that banks have become increasingly risk adverse. Katie Lahey said that some companies, particularly

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small businesses, are unable to find credit, but most are still securing "alternative financing" albeit at higher rates. She went on to say that major businesses in the Australian economy are pinning their hopes on the security of Australia's "big four" banks (ANZ, Westpac, Commonwealth and the National Australia Bank (NAB)).

#### Government Assistance Not Enough

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17. (SBU) Referring to the February 25 announcement by clothing maker Pacific Brands that it would cut at least 1,850 jobs across Australia, Lahey said that the government was "desperate to step in and offer assistance." Pacific Brands' leadership however, refused the assistance saying that making clothing in Australia is no longer viable. Accepting government assistance would only delay the inevitable and put its former workforce into an even tougher job market months later when the jobs would have eventually gone. Pacific Brands' CEO Sue Morphet later announced that the company would source goods from cheaper overseas manufacturers.

#### Comment

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18. (SBU) Business leaders in Melbourne have described a six-month "buffer period" between the Australia and turmoil elsewhere in the global economy. Some have attributed this to early monetary and fiscal action by the GOA, a weaker Australian dollar which "artificially propped up" exports, and longer-term commodities contracts. With unemployment figures expected to rise further and trouble in the key commodities and automotive sectors likely to continue, any real or imagined buffer period has probably expired. Even senior business leaders have had their confidence shaken and many simply state that they are uncertain of what lies ahead for the Australian economy.

THURSTON